

State Economic Handbook:

A delicate re-balancing act

NAB Group Economics



Key points

- The rotation in economic activity towards the non-mining states is continuing, while conditions in mining states have become more challenging as commodity prices have fallen further.
- In terms of domestic demand, **NSW and Victoria will be the most solid performers, with growth gradually improving.** Both will receive less impetus from housing activity and prices in FY 2016-17. Notwithstanding this, our central case remains for solid (though unspectacular) employment growth and lower petrol prices to sufficiently support household incomes and consumption (despite ongoing subdued wages growth).
- **The AUD is acting as a stabiliser, although the troubled global backdrop presents downside risk to all states and territories.** Further depreciation of the AUD to USD66c will continue to improve the competitiveness of export-oriented and import-competing firms to varying degrees. **This will be particularly helpful for services sectors, including those benefiting from tourism and international student arrivals such as hospitality, retail and education.** States for which tourism-related activity makes up a large proportion of the economy such as Tasmania and Queensland will be particularly supported. Tourism and education are also bright spots for NSW, Victoria, South Australia and the NT. **While not our core view, a sharper global slowdown could lower demand for travel to Australia, education exports and Australian property,** particularly if the household sectors in China and East Asia come under stress.
- **Queensland and the Northern Territory will outperform in terms of overall gross state product in coming years as LNG export volumes ramp up. However the outlook for associated income and government revenue has deteriorated** as commodity prices have dropped further, and any residual mining-related investment in the pipeline is unlikely to proceed. **Western Australia is more advanced into the mining investment downturn, with broad-ranging effects to continue across the states' economy in 2015-16,** before LNG export volumes come through in subsequent years, but to a lesser extent than previously forecast.
- **A restrained approach towards non-mining business investment is likely to persist across all states in coming years.** Recent equity market volatility and uncertainty about future taxation arrangements are likely to add to this air of caution, particularly given firms continue to demand a restrictively high rate of return on investment.
- **A snapshot of the outlook for each state and territory is on the following page. Links to individual handbooks for each state and territory are on the right.**

January 2016

Individual state packs

[New South Wales](#)

[Victoria](#)

[Queensland](#)

[South Australia](#)

[Western Australia](#)

[Tasmania](#)

[Australian Capital Territory](#)

[Northern Territory](#)

Contact

riki.polygenis@nab.com.au

Authors:

Riki Polygenis, Head of Australian Economics

James Glenn, Senior Economist

Vyanne Lai, Economist

Amy Li, Economist

Phin Ziebell, Economist

Skye Masters, Head of Interest Rate Strategy

Transition proceeding

- **NSW** will remain the standout in terms of domestic demand. Robust employment growth will be supportive of household spending, while business conditions and capacity utilisation remain elevated, particularly across services sectors. The challenge for NSW will be maintaining robust growth as momentum from the housing sector begins to fade through 2016.
- **Victoria** will also continue to experience solid domestic demand growth, and is also well positioned to take advantage of the lower AUD in its tourism and education sectors. Strong employment growth will support consumer spending, although there will be less impetus from the housing sector through 2016.
- In **Queensland**, the sharp decline in mining investment will be offset by exports, although lower LNG and coal prices will reduce export earnings, profitability and government revenue. Meanwhile, key tourist destinations are benefiting from the lower AUD (with interstate visitor arrivals particularly strong). Domestic demand growth is slowly improving. More attractive rental yields and housing affordability than in NSW and Victoria are driving dwelling investment in Brisbane.
- **South Australia** continues to underperform, challenged by unfavourable demographics and the structural decline of its manufacturing base. Business conditions remain weak, with the retail sector and some improvement in tourism rare bright spots.
- **Western Australia** is well into the throes of the mining investment downturn, which is having a dramatic impact across many segments of the economy. Offsets from stronger mineral export volumes helped to prop up Gross State Product (GSP) growth in 2014-15, but big declines in state final demand have had a major impact on the state's labour market and asset prices. These trends are expected to continue given the lack of momentum in non-mining sectors. A ramping-up in LNG exports in subsequent years should see growth lift, but by less than previously forecast.
- While the **Tasmanian** outlook has improved over the last year, thanks in large part to a pick-up in business investment and strong domestic tourism, recent data suggest that the recovery may be losing a little steam.
- The **ACT** economy is gradually recovering from the recent fiscal tightening and public sector job cuts. The labour market has shown promising signs of improvement, and together with a modest pick up in population growth will support household consumption and dwelling investment.
- Growth in the **Northern Territory** will remain strong in coming years as the Ichthys LNG project commences export. Medium-term the economy will struggle to replace this source of income and employment, despite the lower AUD supporting tourism.

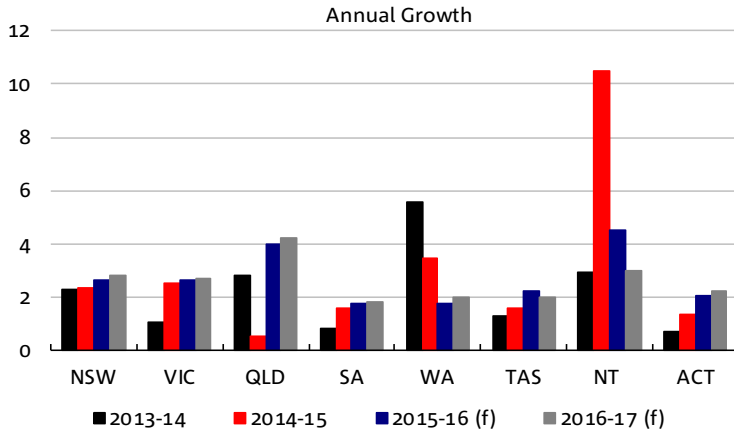
NAB growth and unemployment rate forecasts for the states						
	Gross State Product YoY			Unemployment Rate		
	14/15	15/16f	16/17f	14/15	15/16f	16/17f
NSW	2.4	2.6	2.8	5.9	5.5	5.3
VIC	2.5	2.6	2.7	6.4	6.1	5.9
QLD	0.5	4.0	4.2	6.5	6.2	6.0
SA	1.6	1.7	1.8	6.9	7.6	7.4
WA	3.5	1.7	2.0	5.4	6.5	6.5
TAS	1.6	2.2	2.0	6.9	6.7	6.5
NT	10.5	4.5	3.0	4.2	4.5	4.7
ACT	1.4	2.0	2.3	4.5	4.3	4.0
Australia	2.2	2.7	2.8	6.1	6.0	5.7

South-eastern states continue to experience most solid business conditions and labour market

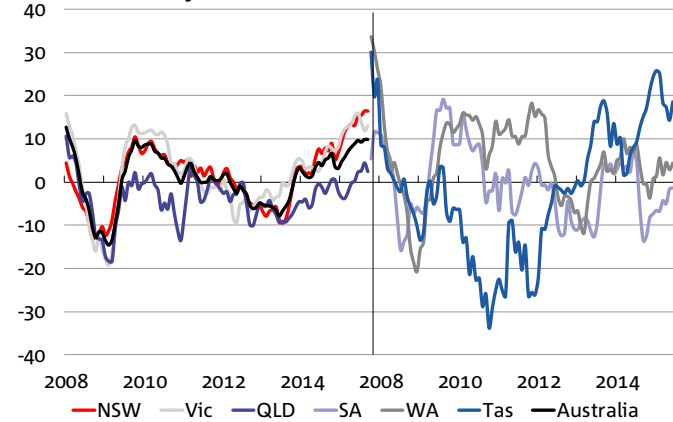
Qld and the NT to grow the fastest as LNG exports come on stream. NSW and Vic pick up modestly to below historical averages, while Tasmania loses some steam. A subdued outlook for WA and SA.

Business conditions remain above average in NSW, Vic and Tas. Conditions are less negative in SA, and have remained positive in Qld (and surprisingly WA), although are below the long-run average.

GSP forecasts by state (annual growth, %)



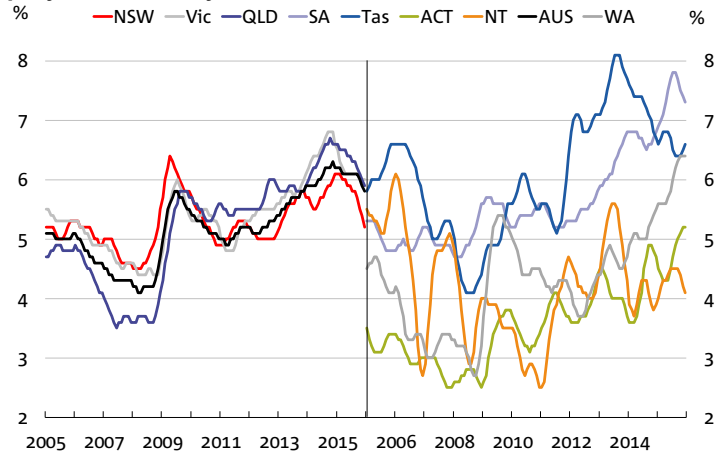
Business conditions by state



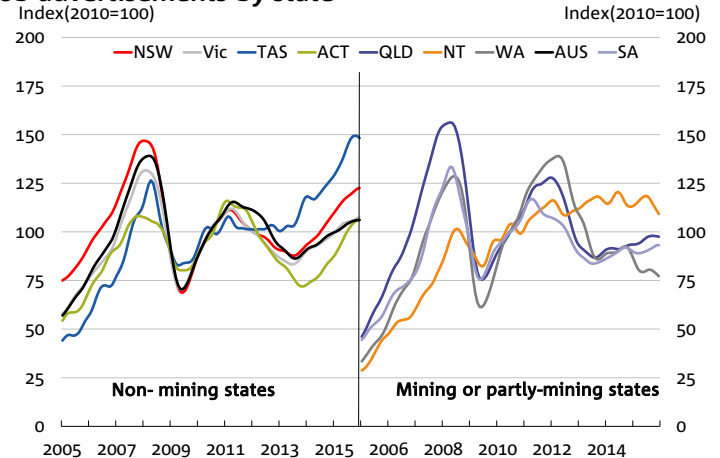
The unemployment rate is clearly trending down in NSW, Victoria and Queensland, has stabilised (in trend terms) in Tasmania and is rising rapidly in WA.

Job advertisements are trending upwards in NSW, Victoria, the ACT and SA. There has been a recent flattening off in Tasmania and Qld following recent strength. Job ads are trending down in WA and NT.

Unemployment rate by state



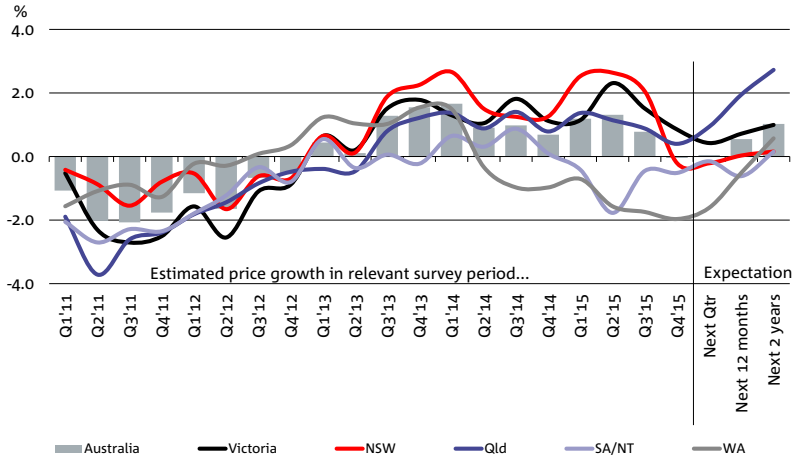
Seek job advertisements by state



Lower unemployment in the east encouraging. Some bright spots in services and commercial property

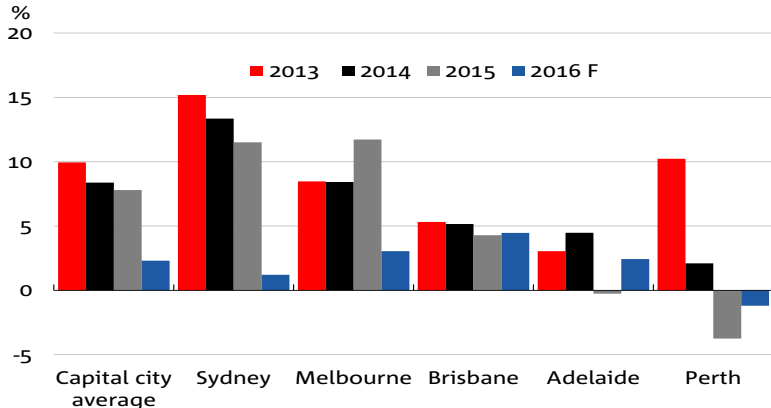
House price expectations for the next 12 months are positive in the eastern mainland states, and positive for all states over the next two years. Prices are expected to outperform in NSW, Vic and Qld.

Residential property survey by state



NAB Economics expects house price growth to slow in Sydney and Melbourne, pick up modestly in Brisbane and remain negative in Perth.

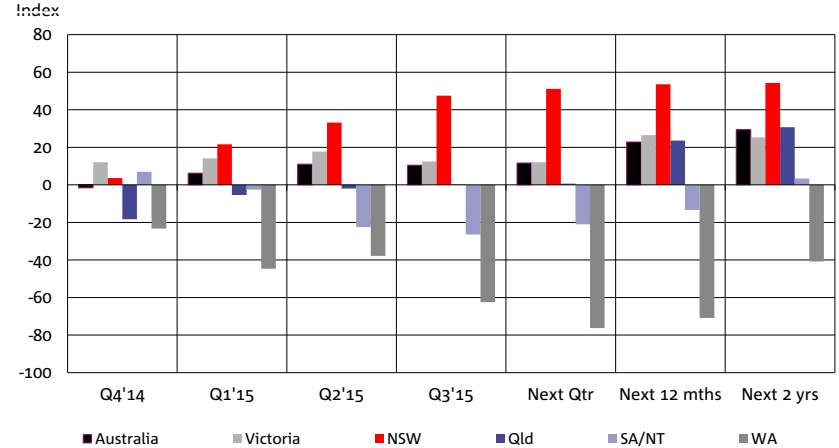
NAB Economics house price forecasts by state



Source: ABS, NAB, state government half-year reviews

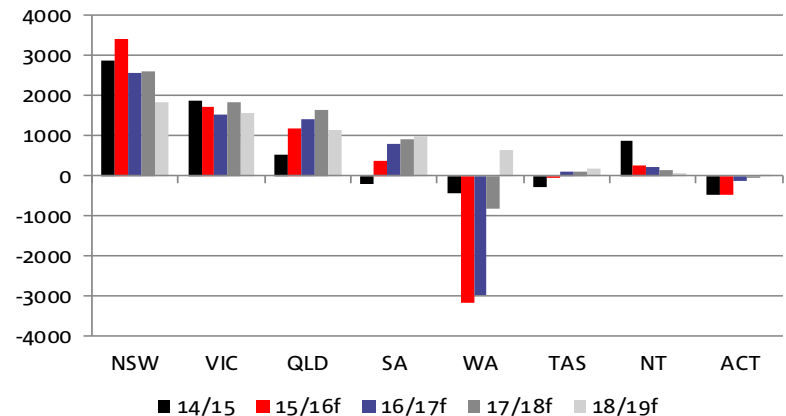
Commercial property market sentiment is deeply negative in WA & SA/NT and neutral in QLD. Vic is positive but subdued, while NSW is easily the most optimistic state in next 1-2 yrs.

Commercial property survey



The budget position of most states will deteriorate in 2016/17, particularly in WA. There is further downside risk to Queensland's budget position given the poor outlook for LNG prices.

Budget balance by state



Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Australian Economics and Commodities

Riki Polygenis
Head of Australian Economics
+(61 3) 8697 9534

James Glenn
Senior Economist – Australia
+(61 3) 9208 8129

Vyanne Lai
Economist – Australia
+(61 3) 8634 0198

Amy Li
Economist – Australia
+(61 3) 8634 1563

Phin Ziebell
Economist – Agribusiness
+(61 4) 75 940 662

Industry Analysis

Dean Pearson
Head of Industry Analysis
+(61 3) 8634 2331

Robert De lure
Senior Economist – Industry Analysis
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Industry Analysis
+(61 3) 8634 3837

Karla Bulauan
Economist – Industry Analysis
+(61 3) 86414028

International Economics

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+(61 3) 9208 5049

Gerard Burg
Senior Economist – Asia
+(61 3) 8634 2788

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia Economics
Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy
Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Emma Lawson
Senior Currency Strategist
+61 2 9237 8154

Interest Rate Strategy
Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Rodrigo Catril
Interest Rate Strategist
+61 2 9293 7109

Credit Research
Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 2 9237 1076

Distribution
Barbara Leong
Research Production Manager
+61 2 9237 8151

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Markets Economist
+64 4 474 6923

Kymerly Martin
Senior Market Strategist
+64 4 924 7654

Raiko Shareef
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

Asia

Christy Tan
Head of Markets Strategy/Research, Asia,
+ 852 2822 5350

UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+ 44207710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 2155

Derek Allassani
Research Production Manager
+44 207 710 1532

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Please click [here](#) to view our disclaimer and terms of use.